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RUFOADA/JAC MOLESWORTH AFB UK  
RUEKJCS/SECDEF WASHINGTON DC  
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RHMCSSU/DEPT OF ENERGY WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHDC  
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UNCLAS SECTION 01 OF 03 LAGOS 000208

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STATE PASS USAID FOR GWEYNAND AND SLAWAETZ

E.O. 12958: N/A  
TAGS: EPET PGOV ENERG NI  
SUBJECT: NLNG'S TRAIN 6 ON LINE, TRAIN 7 FINAL INVESTMENT  
DECISION IN 2007

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Sensitive But Unclassified; Business Confidential; Handle  
Accordingly

¶1. (U) Summary: Nigerian Liquefied Natural Gas (NLNG), the first company in Nigeria to produce liquefied natural gas (LNG) for the export market, will bring Train 6, now two-thirds complete, and take a final investment decision (FID) on commencement of Train 7 in early 2007. The company anticipates that fully 50 percent of this gas from Trains 1-7 will be sold into the U.S. market. One study shows that NLNG will be one of the two least expensive producers in a field of 25 producers serving the United States.

¶2. (U) Nigerian Liquefied Natural Gas (NLNG) was the first company in Nigeria to produce liquefied natural gas (LNG) for export. In a recent business briefing NLNG executives told Pol-Econ Chief NLNG's business model for Trains 1-6 has been highly successful. Shell, Total and Eni, each in separate joint venture (JV) partnership with the Nigerian National Petroleum Company (NNPC), sell gas to NLNG. Each joint venture brought its own share of cash as an initial investment in NLNG; the funds were placed in escrow and available for NLNG to draw on as needed.

¶3. (U) NLNG currently has five trains, producing 18 million tons per year (mtpa) of LNG, from which they deliver 262 cargoes (approximately one every 1.5 days) to customers each year. Train 6, which will begin operation in 2007, is 66 percent complete. Upon completion of Train 6, the company will have the capacity to produce 22 million mtpa of LNG, and 5 mtpa of natural gas liquids (NGLs), and to deliver 400

cargoes to customers per year. Other company assets include 4 LNG tanks with a total capacity of 340,000 cubic meters, 4 liquefied petroleum gas (LPG) tanks with a total capacity of 260,000 cubic meters, and 3 condensation tanks with a total capacity of 120,000 cubic meters. With the completion of Train 6, investment in the project will total USD 12 billion.

¶4. (U) NLNG's subsidiary, Bonny Gas Transport (BGT), currently has 20 vessels, and will have a total of 24 vessels under long term charter by 2007. BGT currently owns 12 vessels and 14 newly built tankers have been secured for Trains 4-6 (8 for Trains 4-5 and 6 for Train 6). The ships average 138,000 cubic meters. Because they are not very large, their size allows them to call at any port, providing maximum flexibility.

NLNG To Ship 50 Percent to United States

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¶5. (U) NLNG's markets are changing. Trains 1-3 shipped 53 percent of product to Iberia and 47 percent to France, Turkey and Italy. Trains 4-6 shipped 61 percent of product to the United States, 34 percent to Iberia and 5 percent to France, Turkey and Italy. As a result, trains 1-6, taken together, send 35 percent of their gas to North America, 43 percent to Iberia and 22 percent to France, Turkey and Italy. When Train 7 comes on line, fully 50 percent of gas produced at the plant will be sent to the United States, and 50 percent to the EU.

Trains 7-8 Very Price Competitive in U.S. Market

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¶6. (SBU) A consultant's study showed that NLNG has the

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second most price competitive company, behind Atlantic LNG, in the North American market. In the study, OK LNG ranks third, while Brass is 10th, and ExxonMobil 11th in terms of price competitiveness. As a result, NLNG plans by 2010 to operate Trains 1-7 with three shipping berths, and have room to add Train 8 and an additional berth. The company hopes to produce more than 30 million tons per year of LNG, 7 million tons per year of natural gas liquids (NGLs) and complete 550 LNG loadings per year using 32 dedicated ships. The final investment decision (FID) for Train 7 will be taken in early 2007, and production from that Train will begin in 2011. In mid-February, media reports indicated that BG Group, a UK firm, had signed a purchase agreement with NLNG to buy 2.25 million metric tons per year of liquefied natural gas from NLNG's Train 7. Under the terms of the twenty year deal, cargoes would be supplied on an ex-ship basis to BG at its Lake Charles, Louisiana facility. Early in March, Foster-Wheeler Energy Limited, the Nigerian subsidiary of the U.S. engineering firm by the same name, and Chiyoda of Japan, announced that they had won the contract for the Front End Engineering Design (FEED) contract for construction of Train

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Business Challenges

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¶7. (SBU) The company shares with other companies the challenge of doing business in the volatile Niger Delta. Although local communities are in support of the NLNG project, NLNG is aware that it is vulnerable should the Movement for the Emancipation of the Niger Delta (MEND) seek to disrupt its operation. The company is urging the Government of Nigeria to ensure peace and security and to police the pipelines and waterways, and is working with the local communities on development issues.

¶8. (SBU) The company faces competition from other LNG producers for investments from NNPC. NLNG has strong revenue streams, but much of the revenue will have to be reinvested in order to construct Trains 7 and beyond. If the NNPC

chooses to reinvest revenues from NLNG Trains 1-6 in Trains 7 and 8, then NLNG will be able to grow its business and provide additional NLG to the U.S. market. However, if NNPC decides to use the funds elsewhere such as to invest the money in other projects such as Brass or Olokola (OK) LNG then NLNG will have a difficult time expanding. Because Brass and OK LNG are comparatively new projects, they require NNPC functionaries to take more trips abroad to confer with co-investors than does a mature project like NLNG; this factor may sway functionaries' decision as to where to invest. NNPC or other GON-induced delays to Train 7 could damage Nigeria's international business reputation, and put at risk the 8 mtpa of LNG that NLNG has sold under Memorandum of Understanding (MOU) to major international buyers as the basis of its proposed Train 7 expansion, NLNG officials warned.

#### Nigeria's Gas Resources

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**¶9.** (U) By NLNG's count, Nigeria has oil reserves of approximately 35 billion barrels of oil or oil equivalent. It also has approximately 5,300 billion cubic meters or 187 trillion cubic meters of proven natural gas reserves. Of that amount, approximately three fifths is associated gas. NLNG estimates these natural gas reserves can support 30 LNG trains of 4 mtpa for 25 years. To date, proven natural gas

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reserves are the result of exploration for oil. Now, however, companies are beginning to explore solely for gas in deepwater concessions.

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